



# MICHIGAN ECONOMIC UPDATE

Office of Revenue and Tax Analysis  
Michigan Department of Treasury

<http://www.michigan.gov/treasury>

## November 2002 Summary

**U.S. Economy:** Mixed economic indicators reflect the softness in current recovery. Consumer sentiment improved from its nine year low and retail sales posted solid gains in November. October new durable goods orders recovered some of their September losses but remain flat compared to a year ago. The ISM manufacturing index has signaled an essentially flat manufacturing sector for five straight months. Industrial production has weakened substantially since July.

The housing market remains on pace to set new record highs. Record mortgage refinancing continued to buoy consumption but has fallen sharply over the past month. A sharp increase in the Conference Board's index of leading economic indicators suggests the recovery might be firming. However, a weak jobs market, uncertainty surrounding equity markets, and a potential war cloud the outlook.

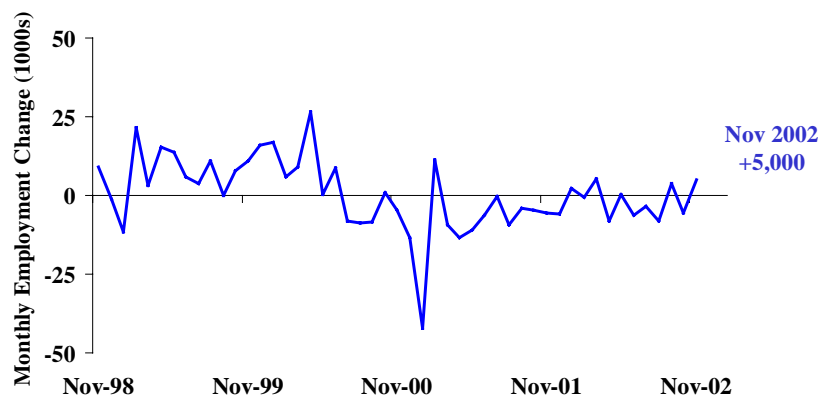
**Employment:** Michigan's unemployment rate remained unchanged at October's revised 5.7 percent rate. Michigan's unemployment rate was below the U.S. for the first month in two years. U.S. payroll employment fell 40,000 while Michigan's rose 5,000. Over the past year, Michigan's and the U.S. unemployment rate both rose 0.4 of a percentage point.

**Auto Industry:** Light vehicle sales rebounded to a 15.9 million unit rate. Year to date, Michigan vehicle production is up 9.3 percent from a year ago compared with 7.5 percent nationally. Vehicle inventories have risen 28.3 percent over the past three months. Consequently, auto employment was up in November.

**Inflation:** U.S. inflation remains moderate with consumer prices up 2.2 percent and producer prices up 0.9 percent compared to a year ago.

**Michigan Metro Areas:** Compared to a year ago, October unemployment rates in most Michigan major labor markets were down slightly. Employment fell in seven areas and rose in five areas. The labor force fell in nine areas and rose in three.

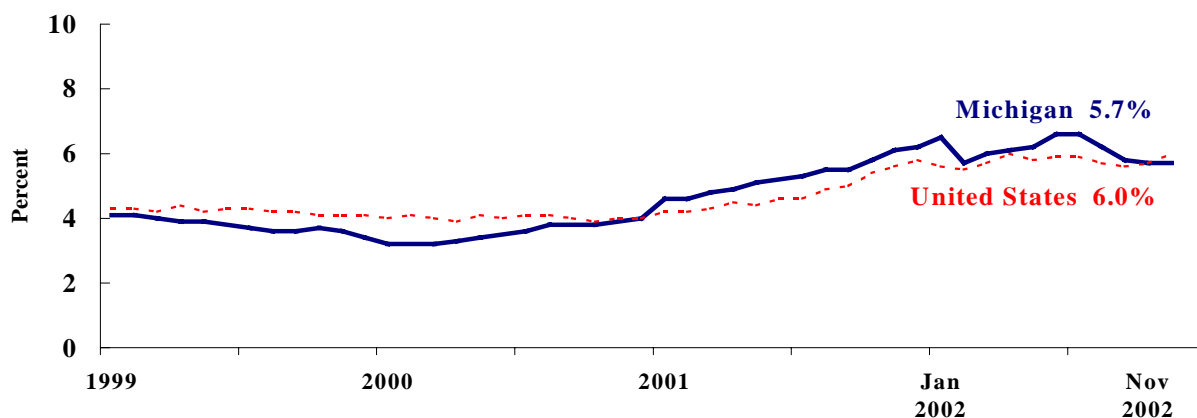
### Michigan Wage and Salary Employment After Sharp Declines, Flattening<sup>(b,g)</sup>



## Labor Market Statistics

- Michigan's November unemployment remained unchanged at 5.7 percent. The state unemployment rate was revised upward by 0.1 percentage points to 5.7 percent in October. Nationally, the jobless rate increased 0.3 percentage points from last month to 6.0 percent. For the first time since November 2000, Michigan unemployment rate is below the U.S. average after the recent revisions. Compared to one year ago, the Michigan unemployment rate was down 0.4 percentage points. Monthly unemployment rates fluctuate due to statistical sampling errors and data revisions. Therefore, Michigan's three-month average of 5.7 percent may be a better measure of actual job market conditions.

### Michigan and U.S. Monthly Unemployment Rates 1999 to 2002



Source: Michigan Dept. of Career Development and Bureau of Labor Statistics, U.S. Dept. of Labor

- The number of people employed in Michigan decreased by 7,000 to 4,831,000. Compared to one year earlier, Michigan employment fell by 37,000 (0.8 percent). The Michigan labor force decreased by 7,000 from last month and was down 65,000 from a year ago.
- United States employment totaled 134.2 million persons in November, down 689,000 from October and a decline of 28,000 from the November 2001 level.

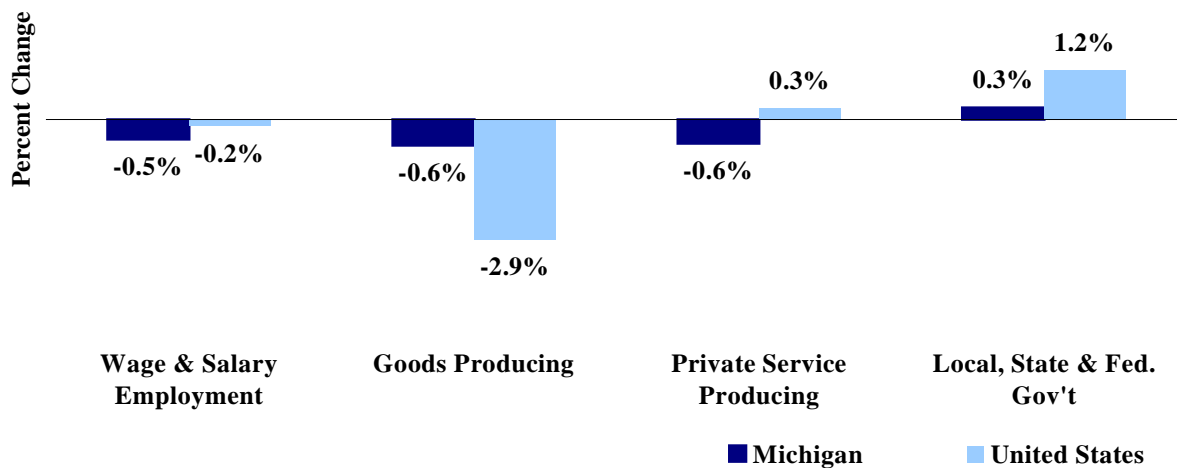
### Employment by Place of Residence (in thousands)<sup>(a)</sup>

	2001 Average	Sep 2002	Oct 2002	Nov 2002	Change From				Three Month Average
					Oct 2002 Level	%	Nov 2001 Level	%	
Michigan									
Labor Force	5,175	5,141	5,128	5,121	-7	-0.1%	-65	-1.3%	5,130
Employed	4,901	4,842	4,838	4,831	-7	-0.1%	-37	-0.8%	4,837
Unemployed	274	299	290	290	0	0.0%	-27	-8.5%	293
Unemployment Rate	5.3%	5.8%	5.7%	5.7%	n.a.	0.0% pts	n.a.	-0.4% pts	5.7%
United States									
Labor Force	141,815	143,277	143,123	142,733	-390	-0.3%	454	0.3%	143,044
Employed	135,073	135,185	134,914	134,225	-689	-0.5%	-28	0.0%	134,775
Unemployed	6,742	8,092	8,209	8,508	299	3.6%	482	6.0%	8,270
Unemployment Rate	4.8%	5.6%	5.7%	6.0%	n.a.	0.3% pts	n.a.	0.4% pts	5.8%

## Employment by Place of Work

- From November 2001 to November 2002, Michigan wage and salary employment declined 22,000 (0.5 percent) while U.S. employment fell 212,000 (0.2 percent). During the same period, Michigan goods producing employment declined 0.6 percent compared to a 2.9 percent decline nationally.

### Wage and Salary Employment Growth November 2001 to November 2002



Source: Bureau of Labor Statistics, Michigan Dept. of Career Development

- In the private service-producing sector, employment increased 0.3 percent nationally compared to a 0.6 percent decline in Michigan. Total local, state, and federal government employment was up 1.2 percent nationally compared to a 0.3 percent increase in Michigan.
- Compared to a year ago, manufacturing hours worked increased 1.0 hours per week in Michigan compared to a 0.3 hours per week increase nationally.

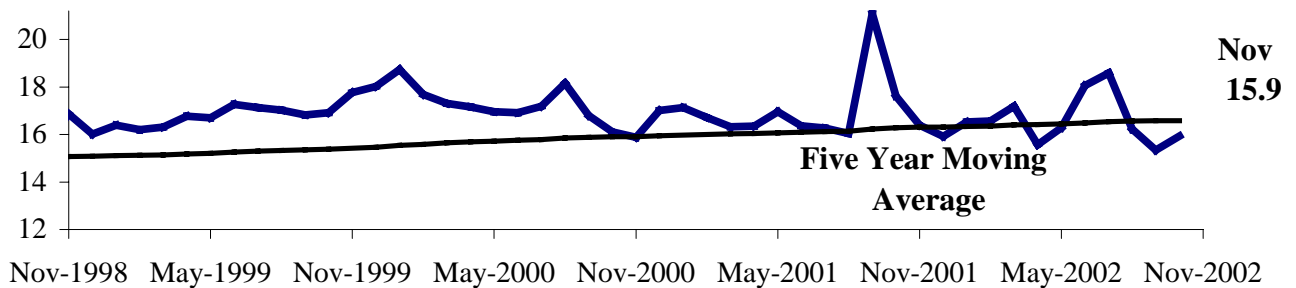
### Establishment Employment (in thousands)<sup>(b)</sup>

	Michigan				United States			
	2001 Average	Nov 2001	Nov 2002	Percent Change	2001 Average	Nov 2001	Nov 2002	Percent Change
Wage & Salary Employment	4,587	4,562	4,540	-0.5%	132,213	131,087	130,875	-0.2%
Goods Producing	1,136	1,120	1,113	-0.6%	25,122	24,353	23,643	-2.9%
Manufacturing	913	911	907	-0.4%	17,698	17,158	16,551	-3.5%
Private Service Producing	2,764	2,751	2,735	-0.6%	86,219	85,634	85,878	0.3%
Retail Trade	853	846	828	-2.1%	23,488	23,449	23,253	-0.8%
Services	1,300	1,294	1,299	0.4%	41,024	40,834	41,436	1.5%
Local, State & Fed. Gov't	687	690	692	0.3%	20,873	21,100	21,354	1.2%
Manufacturing Weekly Hours	41.5	41.4	42.4	1.0 hrs	40.7	40.4	40.7	0.3 hrs

## Motor Vehicle Industry Sales

- In November, light vehicle sales rebounded to a 15.9 million unit rate, rising 3.9 percent from October. Compared to a year ago, light vehicle sales are down 9.5 percent. Year to date, light vehicle sales have averaged 16.6 million units, down 3.0 percent from a year ago.

### Monthly Light Vehicle Sales (Annual Rate)



- Year-to-date, domestically produced light vehicle sales are down 5.2 percent while foreign produced vehicle sales are up 7.1 percent. As a result, the year-to-date foreign light vehicle sales share is up 1.9 percentage points to 19.8 percent. Year to date, total auto sales are down 5.2 percent while total light truck sales are slightly lower (0.8 percent).
- Over the last three months, light vehicle inventories have risen 28.3 percent while the days supply of inventory has risen by 32 days to 79 days.

## Motor Vehicle Sales Statistics

(Millions, unless otherwise specified)

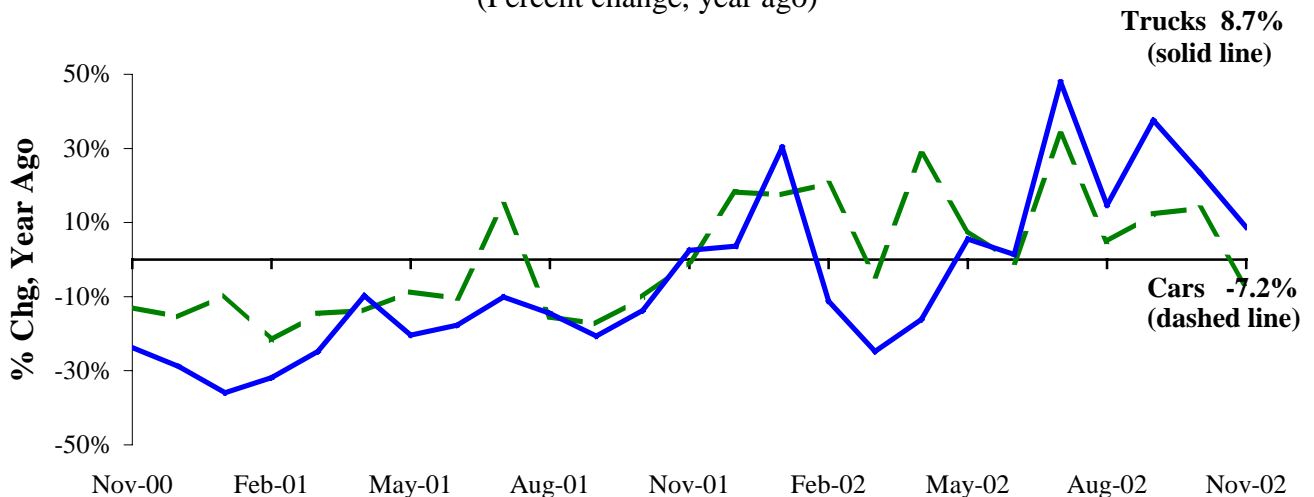
Motor Vehicle Sales <sup>(c)</sup>	2001 Average	Sep 2002	Oct 2002	Nov 2002	3 Month Average	Change from Year Ago	
						Level	%
Autos	8.4	7.9	7.3	7.9	7.7	(0.6)	-6.6%
Domestics	6.3	5.5	5.3	5.6	5.5	(0.6)	-9.8%
Imports	2.1	2.4	2.0	2.3	2.2	0.1	2.3%
Import Share	24.9%	30.1%	27.0%	29.2%	28.8%	2.5% pts	
Light Trucks	8.6	8.3	8.0	8.0	8.1	(1.1)	-12.2%
Domestics	7.6	7.3	7.1	7.0	7.1	(1.2)	-14.3%
Imports	1.0	1.0	1.0	1.1	1.0	0.0	4.4%
Import Share	11.4%	12.3%	12.1%	13.3%	12.6%	2.1% pts	
Total Light Vehicles	17.0	16.2	15.3	15.9	15.8	(1.7)	-9.5%
Heavy Trucks	0.4	0.4	0.4	0.4	0.4	(0.0)	-6.7%
Total Vehicles	17.5	16.7	15.8	16.4	16.3	(1.7)	-9.4%
U.S. Light Vehicle Inventories <sup>(d)</sup>		Sep-02	Oct-02	Nov-02	3 Month	Change	
Total Car	1.471	1.335	1.469	1.609	1.471	0.314	
Days Supply	54	51	66	73	63	19 days	
Total Truck	1.869	1.679	1.876	2.033	1.863	0.338	
Days Supply	66	65	73	84	74	25 days	

## Motor Vehicle Industry Production

- Michigan motor vehicle production fell 22.6 percent from October to November and was down 1.0 percent from a year ago. From October, Michigan car production decreased 24.9 percent from last month; state truck production fell 19.3 percent. Nationally, car production fell 18.3 percent while U.S. truck production fell 20.4 percent. Compared to a year ago, Michigan car production fell 7.2 percent while state truck production increased 8.7 percent.

### Michigan Vehicle Production

(Percent change, year ago)



- In November 2002, Michigan accounted for 22.7 percent of the 963,822 vehicles produced nationally. Michigan comprised 32.5 percent of national car production and 16.3 percent of U.S. truck production. Compared to a year ago, Michigan's share of U.S. auto production fell 1.2 percentage points while the state's share of light truck production rose 1.2 percent.
- Year to date, vehicle production is up 9.3 percent in Michigan and 7.5 percent nationally. Michigan car and truck production is 10.1 percent and 7.8 percent higher respectively. Year to date, Michigan's share of U.S. vehicle production is up 0.4 of a percentage point to 23.5 percent.

### Michigan Vehicle Production Statistics

(Thousands, unless otherwise specified)

U.S. Production <sup>(e)</sup>	2001 Average	Sep 2002	Oct 2002	Nov 2002	3 Month Average	Change from Year Ago	
						Level	%
Autos	404.7	409.8	467.5	382.0	419.8	(14.7)	-3.7%
Trucks	553.7	653.0	730.9	581.8	655.2	3.3	0.6%
Total	958.3	1,062.8	1,198.4	963.8	1,075.0	(11.5)	-1.2%
<b>Michigan Production <sup>(f)</sup></b>							
Autos	138.7	144.5	165.4	124.2	144.7	(9.7)	-7.2%
Trucks	84.1	102.4	117.2	94.5	104.7	7.6	8.7%
Total	222.7	246.8	282.6	218.8	249.4	(2.1)	-1.0%
Michigan as % of U.S.	23.2%	23.2%	23.6%	22.7%	23.2%	0.1% pts	

## October 2002 Unemployment Rates Largely Unchanged from Year Ago (Not Seasonally Adjusted)

October 2002 unemployment rates were little changed in most of Michigan's 12 major labor markets compared to a year ago. Eight areas reported declines; two areas reported increases. In ten areas, unemployment rate changes ranged narrowly between a 0.4 of a percentage point decline and a 0.2 of a percentage point increase. The other two areas reported declines ranging between 0.6 and 0.8 of a percentage point. The median change was a 0.2 of a percentage point decline. Compared to September 2002, all areas reported slight seasonally unadjusted declines.

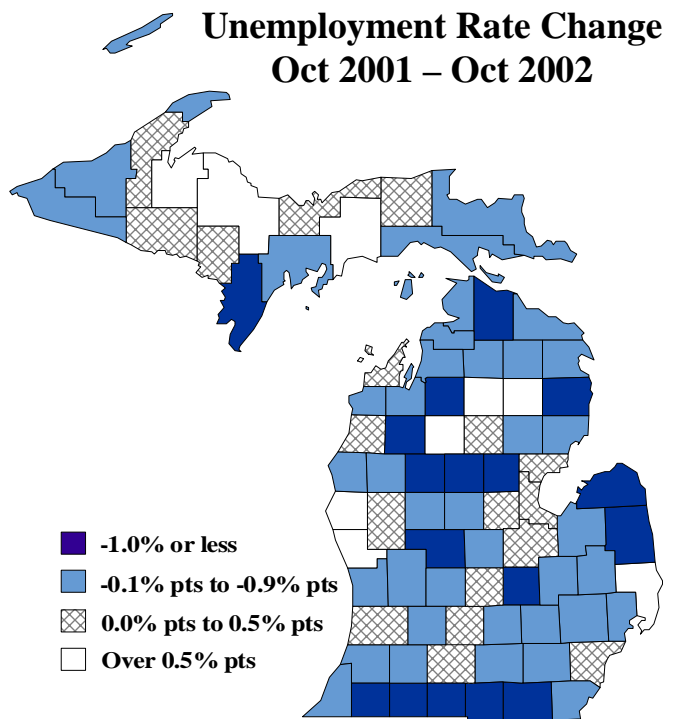
Compared to a year ago, employment fell in seven labor markets and rose in five. In four areas, employment declined by more than 1.0 percent. Two areas recorded employment losses above 2.5 percent: Flint MSA (4.2 percent decline) and Saginaw MSA (3.0 percent decline). The median employment change was a 0.5 percent decline.

October 2002 unemployment rates ranged between 2.9 percent (Ann Arbor MSA) and 7.3 percent (Flint MSA).

Benton Harbor reported a 0.8 of a percentage point year ago decline in its unemployment rate; Ann Arbor recorded a 0.6 of a percentage point decline.

### Local Area Unemployment Rates<sup>(g)</sup>

Local Area	Oct 2001 Rate	Oct 2002 Rate	Latest 3 Month Average
Michigan	5.2%	5.1%	5.4%
Ann Arbor MSA	3.5%	2.9%	3.2%
Benton Harbor MSA	5.5%	4.7%	5.2%
Detroit PMSA	5.3%	5.3%	5.6%
Flint MSA	7.5%	7.3%	7.9%
GR-Musk-Holl MSA	5.4%	5.5%	5.8%
Jackson MSA	5.8%	5.6%	5.9%
Kal-Battle Creek MSA	4.6%	4.4%	4.7%
Lansing MSA	3.2%	3.2%	3.4%
Sag-Bay-Midland MSA	5.1%	5.3%	5.7%
Upper Peninsula	4.6%	4.5%	5.0%
Northeast Lower Mich	6.3%	5.9%	6.2%
Northwest Lower Mich.	5.1%	4.7%	5.0%



Source: Michigan Department of Career Development

Six major labor market areas reported a September 2002 unemployment rate of 5.0 percent or less.

The labor force fell in nine areas and rose in the other three compared to a year ago. The median decline was 1.1 percent. Five areas recorded labor force declines exceeding 1.0 percent. The Flint MSA workforce declined 4.4 percent, while Benton Harbor's fell 2.0 percent.

## U.S. Labor Market 2002 Year to Date

Given the widespread discussion of a “jobless recovery,” it is helpful to review major U.S. employment statistics, year-to-date:

- **Wage and salary employment.** After sharp declines through early 2002, U.S. wage and salary employment has risen slightly. Having declined by 1.8 million between March 2001 and February 2002, U.S. employment has risen by 169,000 since then. Compared to December 2001, U.S. employment is essentially unchanged with year-to-date employment down 0.9 percent.<sup>(b)</sup>
- **ISM employment index.** In November, the ISM manufacturing employment index signaled contraction for the 26<sup>th</sup> straight month. Similarly, the ISM non-manufacturing employment index has signaled contraction for 21 straight months. The ISM manufacturing employment index had signaled a near flattening by mid 2002, but then declined sharply in July.<sup>(i)</sup>
- **Unemployment rate.** Having risen 1.8 percentage points through 2001, the U.S. unemployment rate has risen slightly through 2002. Year-to-date, the U.S. unemployment rate has averaged 5.8 percent or 1.0 percentage point higher than the 2001 average.<sup>(b)</sup>
- **Unemployment Claims.** The four-week moving average of unemployment claims trended downward through much of 2002. After peaking at the beginning of the year, the four-week average declined through July but then rose steadily through September. The average declined through November to its lowest level this year before rising substantially during the first half of December. Continuing claims, which rose steadily through last year, have fluctuated near their highs from the end of 2001.<sup>(r)</sup>
- **Challenger Layoffs Report.** Averaged over three months, layoff announcements peaked in late 2001 and then fell through mid 2002. Having remained essentially unchanged through the fall, announcements have begun rising again. While well below year ago levels, the average is well above mid-2002 levels.<sup>(s)</sup>
- **Help wanted index.** The Conference Board’s help wanted index, which had begun declining by mid 2000, fell sharply in 2001. In 2002, the index continued declining – though at a much slower pace.<sup>(j)</sup>
- **Hours worked.** Both on a year-over-year basis and a year-to-date basis, weekly hours worked have remained about unchanged in 2002 at 34.2 hours. Manufacturing hours, which began declining in early 2000, rose starting in late 2001 but since mid 2002, manufacturing hours gave up those gains and have remained flat.<sup>(b)</sup>
- **Productivity.** With employers hesitant to add to their payrolls, productivity has risen sharply over the past year as the economy recovered. After reporting meager growth or slight declines over the first three quarters of 2001, labor productivity rose 5.6 percent between the third quarters of 2001 and 2002, the largest year-over-year labor productivity growth since 1983. Given the huge productivity increase, unit labor costs declined 2.2 percent despite a 3.3 percent increase in compensation per hour.<sup>(b)</sup>



## U.S. Economic Conditions

	<u>Aug-02</u>	<u>Sep-02</u>	<u>Oct-02</u>	<u>Nov-02</u>	<u>Change from Year Ago</u>
<b>KEY ECONOMIC INDICATORS</b>					
Consumer Sentiment <sup>(h)</sup>	87.6	86.1	80.6	84.2	0.3 points
ISM Manufacturing Index <sup>(i)</sup>	50.5	49.5	48.5	49.2	4.5 points
ISM Non Manufacturing Index <sup>(i)</sup>	50.9	53.9	53.1	57.4	7.6 points
	<u>2001.4</u>	<u>2002.1</u>	<u>2002.2</u>	<u>2002.3</u>	
Business Executives' Confidence <sup>(i)</sup>	40.0	66.0	61.0	54.0	6.0 points
<b>INFLATION <sup>(k)</sup></b>					
<b>1982-84 = 100</b>	<u>Aug-02</u>	<u>Sep-02</u>	<u>Oct-02</u>	<u>Nov-02</u>	<u>Change from Year Ago</u>
U.S. Consumer Price Index	180.7	181.0	181.3	181.3	2.2%
Detroit CPI	180.9	NA	180.4	NA	3.2%
U.S. Producer Price Index	138.7	138.9	140.6	139.6	0.9%
<b>INTEREST RATES</b>					
90 Day T-Bill <sup>(l)</sup>	1.63%	1.63%	1.60%	1.26%	-0.67% points
Aaa Corporate Bonds <sup>(m)</sup>	6.37%	6.15%	6.32%	6.31%	-0.66% points
<b>INDUSTRIAL PRODUCTION <sup>(m)</sup></b>					
	111.3	111.3	110.7	110.8	1.8%
<b>CAPACITY UTILIZATION <sup>(m)</sup></b>					
	76.1%	76.1%	75.5%	75.6%	0.5% points
<b>RETAIL SALES <sup>(n)</sup></b>					
	\$305.6	\$301.2	\$301.4	\$302.5	2.1%
<b>HOUSING STARTS and SALES</b>					
(Millions Annual Rate)	<u>Jul-02</u>	<u>Aug-02</u>	<u>Sep-02</u>	<u>Oct-02</u>	<u>% Change From Year Ago</u>
Housing Starts <sup>(o)</sup>	1.652	1.631	1.808	1.657	8.2%
Existing Home Sales <sup>(p)</sup>	5.370	5.300	5.440	5.770	9.5%
<b>DURABLE GOODS ORDERS <sup>(q)</sup></b>					
	\$179.3	\$177.3	\$169.1	\$173.0	-0.5%
<b>PERSONAL INCOME <sup>(c)</sup></b>					
(Billions of Dollars)	<u>2001.3</u>	<u>2001.4</u>	<u>2002.1</u>	<u>2002.2</u>	<u>% Change From Year Ago</u>
Michigan	\$298.9	\$298.0	\$297.9	\$302.7	1.7%
U.S.	\$8,698.0	\$8,692.9	\$8,794.9	\$8,905.0	2.7%
<b>GROSS DOMESTIC PRODUCT</b>					
(Billions of Chained 1996 Dollars) <sup>(c)</sup>	<u>2001.4</u>	<u>2002.1</u>	<u>2002.2</u>	<u>2002.3</u>	<u>Annualized % Chg From Last Qtr</u>
	\$9,248.8	\$9,363.2	\$9,392.4	\$9,485.6	4.0%



**SOURCES AND NOTES:**

- (a) Seasonally adjusted. Sources: Bureau of Labor Statistics, U.S. Department of Labor and Michigan Dept. of Career Development, Employment Service Agency.
- (b) Bureau of Labor Statistics, U.S. Department of Labor (BLS 790).
- (c) Seasonally adjusted annual rates. Source: Bureau of Economic Analysis, U.S. Department of Commerce.
- (d) Ward's Automotive Reports.
- (e) Automotive News.
- (f) Michigan Department of Treasury.
- (g) Michigan Department of Career Development, Employment Service Agency.
- (h) University of Michigan Survey of Consumers.
- (i) Institute for Supply Management (ISM), formerly NAPM.
- (j) The Conference Board.
- (k) Bureau of Labor Statistics, U.S. Department of Labor.
- (l) U.S. Department of Treasury.
- (m) Seasonally adjusted rates (except interest rates). Federal Reserve System Board of Governors.
- (n) Retail and Food Services Sales. Bureau of the Census, U.S. Department of Commerce.
- (o) Bureau of the Census, U.S. Department of Commerce.
- (p) National Association of Realtors.
- (q) New Orders Excluding Semiconductors. Bureau of the Census, U.S. Department of Commerce.
- (r) U.S. Department of Labor, Employment & Training Administration.
- (s) Challenger, Gray and Christmas.